



Treasury Inspector General for Tax Administration

THE ESTATE TAX COLLECTION PROCESS HAS IMPROVED, BUT OPPORTUNITIES EXIST TO BETTER ENSURE TAXPAYERS ARE TREATED EQUITABLY

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Highlights

Highlights of Report Number: 2007-30-174 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

The estate tax is imposed on the assets of a deceased person and is generally based on the value of the gross estate at the date of death. The Internal Revenue Service (IRS) is not consistently securing and recording special extended estate tax liens on certain estate tax installment election cases. Therefore, the Federal Government's interest is not adequately protected to ensure the taxes owed will be collected. In addition, the IRS does not always advise estate taxpayers of the status of payment extension requests. This results in additional taxpayer burden because taxpayers must initiate contact with the IRS to determine whether their payment extensions have been granted.

WHY TIGTA DID THE AUDIT

This audit was initiated to evaluate the effectiveness of the corrective actions taken in response to recommendations in a prior review. TIGTA conducted the audit to determine whether the IRS is ensuring correct and necessary actions are taken to protect the Federal Government's interest when collecting estate taxes.

WHAT TIGTA FOUND

The IRS had taken corrective action to address previously reported conditions. However, some additional concerns exist. Under Internal Revenue Code (I.R.C.) Section (§) 6166, a qualifying estate may elect to pay its estate tax liability over 14 years, which exceeds the 10-year period during which the general Federal estate tax lien attaches to the assets of the estate. The IRS is not consistently securing and recording I.R.C. § 6324A special extended tax liens on estate tax cases to secure the Federal Government's interest after the 10-year general lien expires. Therefore, additional processes and controls for the 4-year period that extends beyond the 10-year general lien period are

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required. Two specific activities require improvements. First, special lien monitoring controls require enhancements to ensure the Federal Government's interest is protected for estate tax cases in which installment payment periods extend past the normal 10-year general estate tax lien period. Second, requests for payment extension cases may be evaluated more effectively by the technical experts in the Collection Advisory Office than by the less technical Cincinnati Campus Compliance Operations staff. These payment extension requests should be reassessed to determine whether the cases are being worked by employees with the proper technical expertise. The current process allows similarly situated taxpayers to be treated differently. In addition, estate taxpayers are not always notified when their requests for payment extensions have been granted.

WHAT TIGTA RECOMMENDED

TIGTA recommended the Director, Collection, enhance the internal controls on the lien tracking system currently in place for I.R.C. § 6324A. Periodic reconciliations should be performed to ensure all I.R.C. § 6324A special liens are being timely recorded and released. The Directors, Collection and Specialty Programs, should reassess whether estate cases requesting payment extensions are being worked by employees with proper technical expertise to ensure taxpayers receive equitable tax treatment and taxes are collected. The Director, Specialty Programs, should update controls on I.R.C. § 6166 installment payment cases to ensure lien packages are sent to the Collection Advisory Office to determine whether a bond or an I.R.C. § 6324A special lien should be secured. Additionally, the Director, Specialty Programs, should notify taxpayers when their payment extensions have been granted.

In their response, IRS officials agreed with three of our recommendations and partially agreed with one recommendation. They plan to enhance internal controls on the lien tracking system for I.R.C. § 6324A special liens and on the I.R.C. § 6166 installment payment cases to ensure lien packages are sent to the Collection Advisory Office. Management plans to review the process by which requests for payment extensions are evaluated and resume notification of taxpayers when the requests for payment extensions have been granted. Although IRS management did not fully agree with our fourth recommendation, their alternative corrective action for notifying taxpayers when payment extensions have been granted is satisfactory.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2007reports/200730174fr.pdf>.

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